

March 22, 1939.

Mr. Pyke Johnson,  
Automobile Manufacturers Association,  
Transportation Building,  
Washington, D. C.

Dear Pyke:

I am gratified to learn that my talk stimulated some research work on the part of your friend. I must say, however, that I find the result of his work very misleading. I think, if he had gone more exhaustively into the matter, he would have arrived at radically different conclusions.

In the first place, he apparently used the book-keeping net expenditures of the Treasury, though obviously such items of expenditures as transfers to trust accounts have no relation to buying power. The attached Chart I shows the actual cash deficit in relation to new car sales. There appears to be little positive correlation. However, we get a somewhat different picture if we assume that the full effect of deficit spending is felt sometime after it occurs. Chart II shows the effect of relating one year's deficit spending to car sales in the following year. The relationship appears fairly good except for the years 1934-35. It so happens, however, that the net cash deficit in those years is not a very good measure of the net addition to disposable cash income of the community attributable to the fiscal operations of the Government. For instance, in the fiscal year 1934, the Federal Government invested \$150,000,000 in the stock of the Federal Deposit Insurance Corporation and the Reconstruction Finance Corporation disbursed over \$1,000,000,000, primarily for loans to and investments in financial institutions like banks and insurance companies. Little of this money passed into the hands of individuals and became available for consumer purchases. Expenditures of the type not adding to consumer buying power were a much more important factor in total Federal expenditures in the fiscal year 1934 than in the fiscal year 1935.

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As a more accurate measure of the additions to or subtractions from the community's disposal cash income arising from the fiscal operations of the Government, we have constructed a series which we call the net Federal contribution to buying power. This series excludes refinancing types of expenditures, and estate and gift taxes, includes purchases of domestically mined gold and silver, unemployment payroll tax collections on an accrual basis, and smoothes certain types of expenditures and receipts. This series indicates that, so far as net additions to buying power are concerned, 1935 was above 1934. In Chart III this series is related directly to the following year's car sales.

Actually, I should not expect a particularly close relation between any one item of consumer expenditure and the net Federal contribution. Variations in national income are, as you know, only one factor entering into automobile sales. Changes in the age distribution of existing cars, in terms of financing, in models, and in expectations regarding prices, are all on occasion important. I regard, therefore, the positive lead-lag relationship depicted in Chart III as partly a coincidence.

On the other hand, there are more reasonable grounds for expecting to find a definite relationship between large changes in the net federal contribution to buying power and changes in total consumer expenditures, though even here other factors may partially or completely offset the influence of changes in the government net expenditure figures. I am including a chart showing semi-annual figures of the Government net contribution and changes from one half-yearly period to another in a comprehensive index of consumer expenditures. Past relationships of these two series at least suggest, I think, the danger we may run if we attempt a very rapid transition to a balanced budget.

These charts might suggest that we cannot have a growth of consumption at any time without a net federal contribution to buying power. This, however, would be an unwarranted assumption since the charts only cover a period in which the volume of private capital expenditures was insufficient to generate a national income capable of absorbing our potential output. If the volume of private capital expenditures were sufficiently high, we could have a growth in consumption without any contribution by the Government.

With reference to the second question you passed along to me, I suppose the correct answer is that the dollar is our unit of account, and cash and deposits subject to check are our media of payment. The dollar is convertible for certain purposes into gold at the rate of 15 5/21 grains of gold 9/10 fine. If one begins to

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lose "confidence" in the dollar, I suppose this loss of confidence means that one expects its value to fall, or, in other words, prices to rise. I would not become unduly alarmed by a gentle rise in prices. What your friend had in mind, however, was probably a drastic rise in prices, or, in other words, inflation. I would merely point out that before inflation could develop on any substantial or general scale, we would have to have full employment of our productive factors. Since we are still a long way from that condition, and since the high national income that such a condition would generate would permit Federal debt retirement, which would be a restraining influence, I think the dangers he is fearing are very remote. Personally, I'm far more concerned with the problem of securing sufficient effective demand to absorb our existing capacity to produce.

Sincerely yours,

M. S. Eccles,  
Chairman.

Enclosures 4

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Chart I

Excess of Federal Cash Outgo Over Cash Income and New Passenger Car Registrations

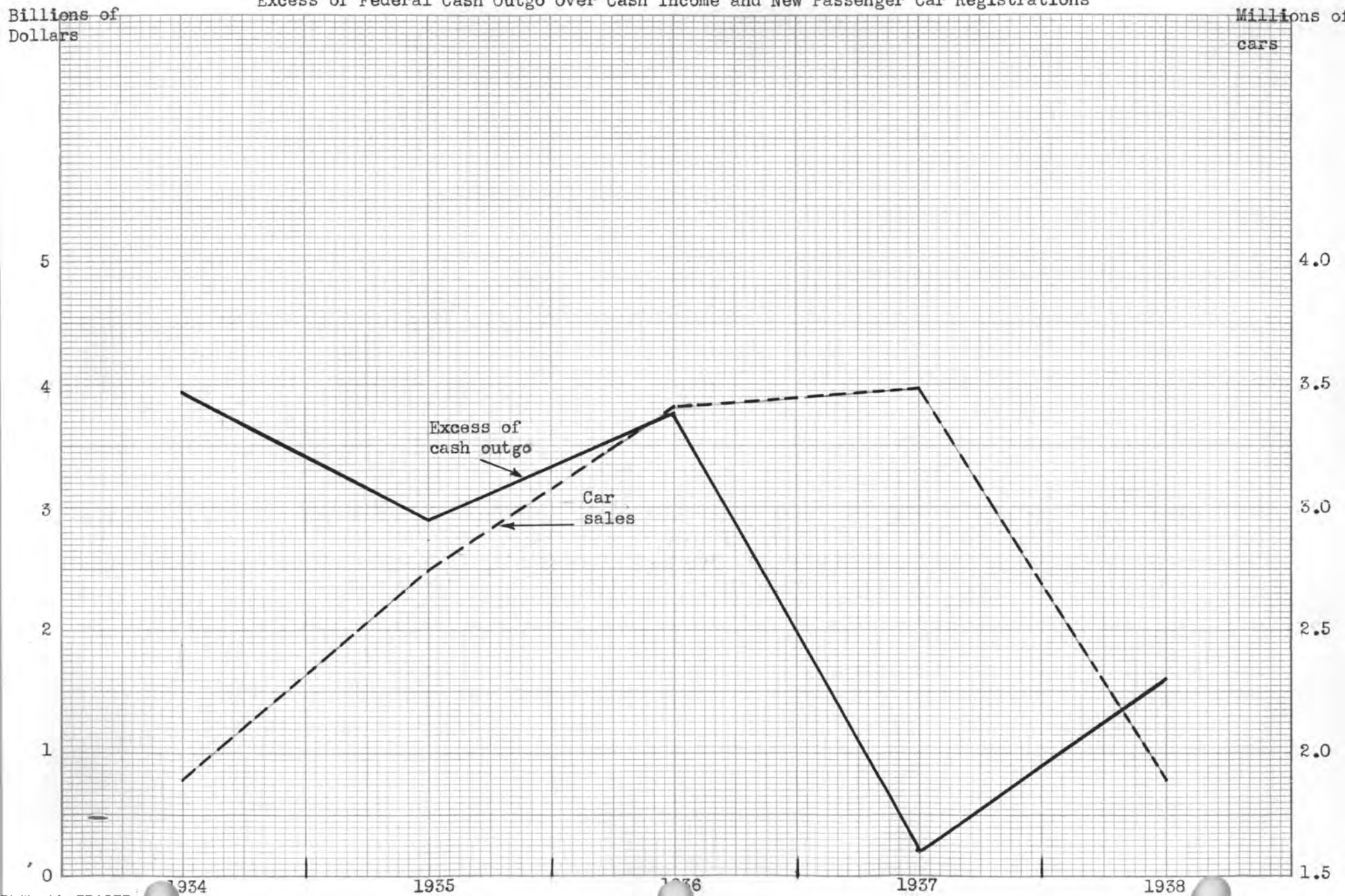






Chart II

Excess of Federal Cash Outgo Over Cash Income and New Passenger Car Registrations, Lagged One Year

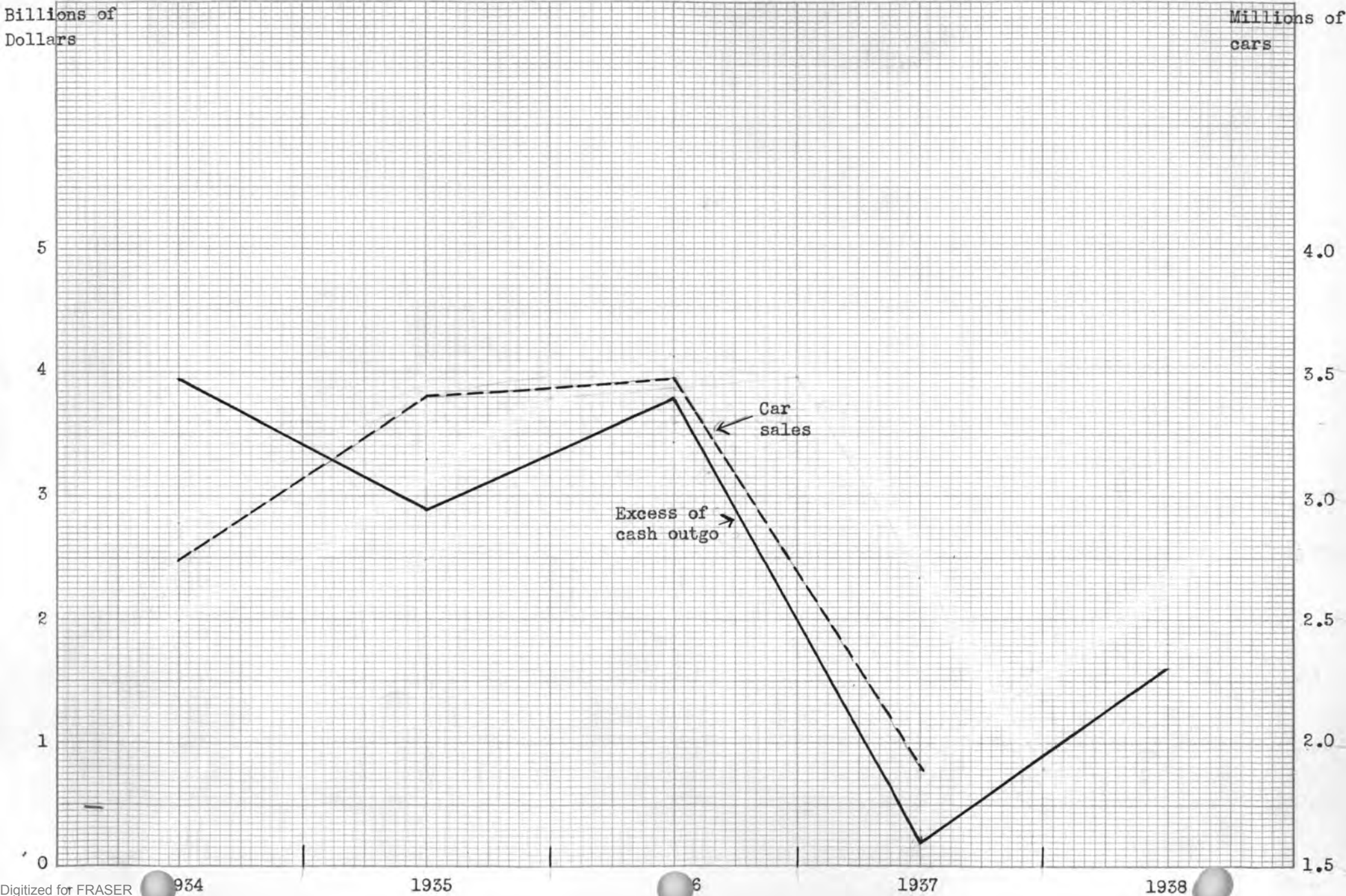
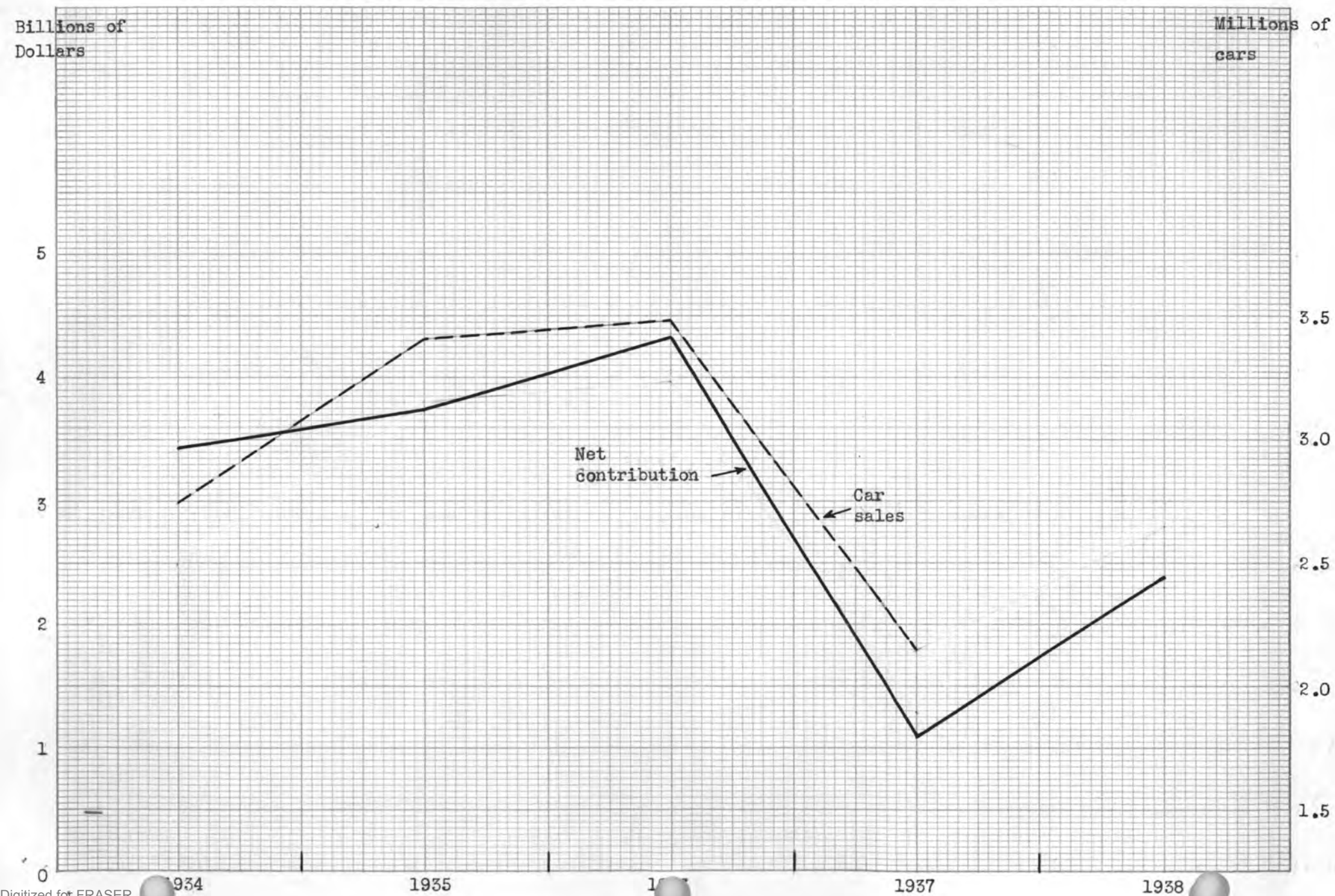




Chart III  
Net Federal Contribution to Buying Power and New Passenger Car Registrations, Lagged One Year



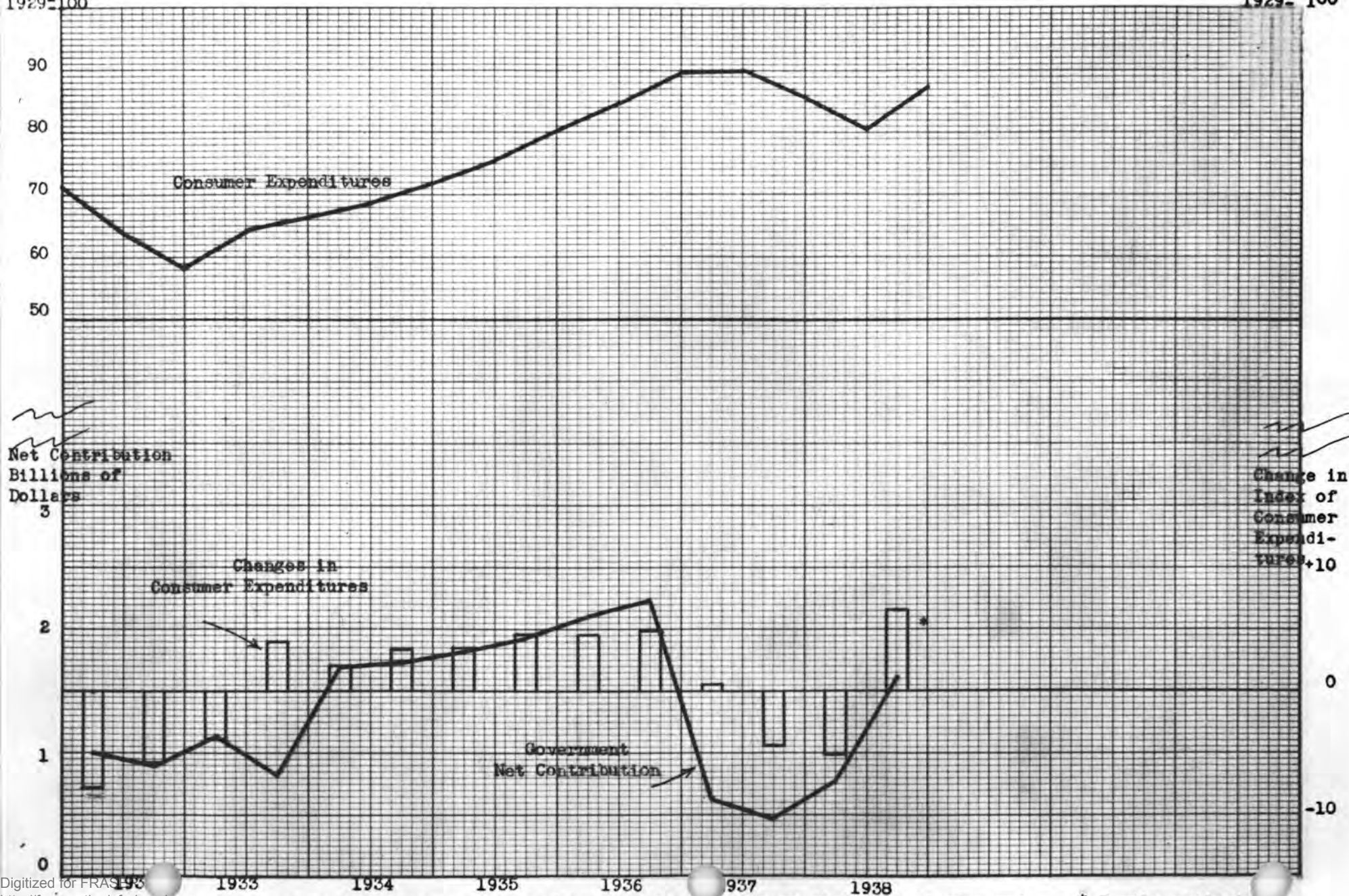




# HALF YEARLY GOVERNMENT NET CONTRIBUTION COMPARED WITH CHANGES IN CONSUMER EXPENDITURES

1929=100

1929= 100



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

## Office Correspondence

Date March 20, 1939.To Chairman EcclesSubject: Letter to Mr. Pyke JohnsonFrom Lauchlin Currie*LNC*

I have inserted a paragraph on page 2, correcting the implication that we can never have an increase in consumption without a cash deficit. On the other point you mentioned, I have read Mr. Johnson's letter over again and I am convinced that the reference to the Federal Reserve was only incidental; that what he was really concerned with in asking for a definition of a dollar is the inability to get gold and the fear of inflation. I have, therefore, only added a sentence to the effect that "the dollar is convertible for certain purposes at the rate of 15 5/21 grains of gold 9/10 fine." If you still feel that you would like to go into the Federal Reserve aspect of the picture I shall be very glad to try my hand at writing up something along that line.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date March 10, 1939.

To Chairman Eccles

Subject: Reply to Mr. Pyke Johnson

From Lauchlin Currie

*LBC*

Attached is a suggested reply to Mr. Johnson, along the lines you indicated. Not knowing the degree of your intimacy, I have left blanks for the salutation and ending.

TO Dr. Currie

FROM Chairman Eccles

MARKS:

These are the three matters about which I talked to you over the phone. Please see that the Letter from Pyke Johnson is followed up and we receive a reply.

M.S.E.

CHAIRMAN'S OFFICE

## AUTOMOBILE MANUFACTURERS ASSOCIATION

TRANSPORTATION BUILDING, WASHINGTON, D. C.

February 24, 1939

Governor Marriner S. Eccles  
Board of Governors of the  
Federal Reserve System  
Washington, D. C.

My dear Governor:

One of the men who listened to your talk in Detroit Monday went back to his office and prepared the attached chart which compares new passenger car sales with the deficit spending of the government.

He finds, as you will notice, that in 1935 when the deficit spending decreased, car sales increased. The same was true in 1937. In 1938 deficit spending increased and car sales decreased.

From that analysis he comes to the judgment that it is not logical to assume that the activity of business is dependent on government deficits.

Knowing that you are interested in having all slants of this question presented to you, I thought it worth while to pass this along to you for your consideration.

Incidentally, the same chap sent a question along, which was not put to you on that day. It is as follows:

"I have a Federal Reserve note which says that the United States will pay me \$10 on demand. What is your definition of the word dollar?"

Here again is a question which I judge from talks with business men recently, reflects a serious note of concern.

I am still looking forward to the day when our committee will have a chance to hear you.

I trust that you have fully recovered from your recent indisposition.

Cordially,

  
Pyke Johnson

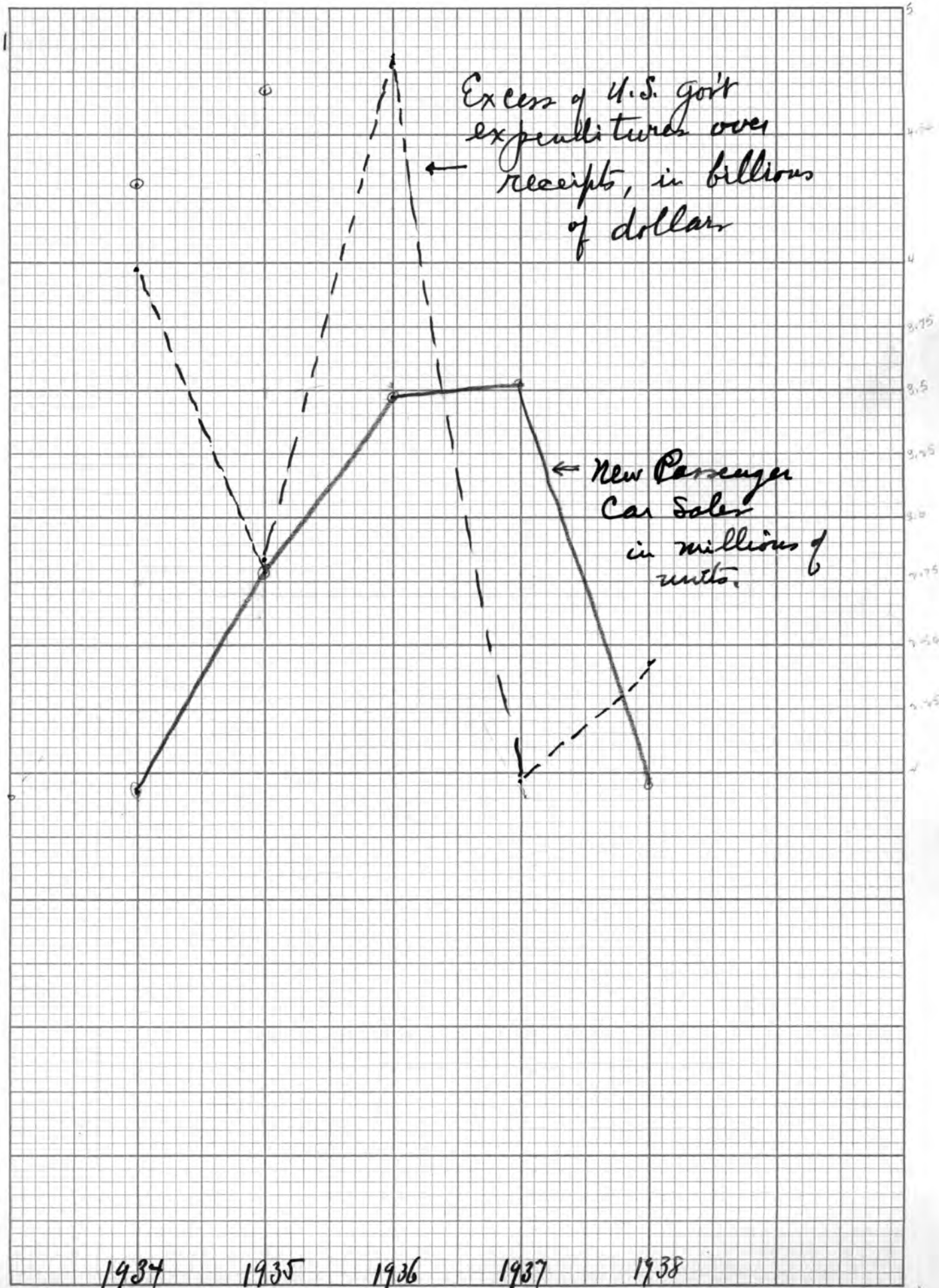
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(not sent)



General Offices  
366 Madison Avenue  
New York

Cable Address  
Automakers

Detroit  
General Motors Building

## AUTOMOBILE MANUFACTURERS ASSOCIATION

TRANSPORTATION BUILDING, WASHINGTON, D. C.

April 3, 1939

Governor M. S. Eccles  
Board of Governors of the  
Federal Reserve System  
Washington, D. C.

Dear Governor:

Thanks very much for your letter of March 22 making answer to mine of February 24, which I find on my desk on my return from a trip south.

I am sending this material along to my friend, with the reservation that the material is for his information and not for any publication.

My only purpose in suggesting a somewhat broader distribution was to get before some of our executives the point of view which you express, which I think is highly interesting.

However, since you have some doubts about this procedure, I am not sending it to anyone else.

Sincerely,



Pyke Johnson

pjs